

City of San José Department of Housing Tierra Encantada Homebuyer Program

The Program

Tierra Encantada Homebuyer Program offers City downpayment assistance loans for 8 townhomes located on Bob Hansen Court (Alum Rock Avenue & McCreery Avenue). Funds from a private lender and the household are used to finance the remainder of the purchase price. The sales prices for the townhomes start at \$500,000, you will need to contact the developer for details of the various floor plans and sales prices.

- The household income cannot be greater than the amount shown below. Household income is the income received from all household members, including adult children and non-applicant spouses.

<i>Household Size</i>	<i>Maximum Qualifying Income Equity-Share/BEGIN Program</i>	<i>Maximum Qualifying Income CalHOME Program</i>
2	\$ 108,750	\$ 67,900
3	122,350	76,400
4	135,950	84,900
5	146,850	91,650

<u># of homes</u>	<u>Equity-Share</u>	<u>BEGIN Program (20% of the sales price)</u>	<u>CalHOME</u>	<u>Sales Prices</u>
8	\$5,000	\$100,000 (est.)	\$58,750	\$500,000 (est.)

Borrower Eligibility

- Borrower is required to obtain the Equity-Share loan, but the other City loans are optional per the borrower's request. However, you will not be offered the other City loans if your housing ratio is below 28%.
- The borrower and any co-borrower(s) cannot have owned a home for the past three years. An exception is allowed for a "displaced homemaker" or a single parent who, while married, owned a home with his or her spouse.
- The total amount financed cannot exceed 100% of the sales price. City funds can only be used for downpayment assistance. FHA financing of mortgage insurance is also an ineligible activity above 100% CLTV.
- The applicant and any other co-borrowers must have a middle credit score of 620. Also, the maximum housing cost-to-income ratio is 37%, and the maximum total debt-to-income ratio is 43%.
- Completion of a homebuyer education program is required. Prospective homebuyers are required to contact [Project Sentinel](#) (408.470.3732). You must provide a copy of your certificate of completion. Only Project Sentinel homebuyer education certificates will be accepted.
- All homes must be "owner occupied" for 45-years or when you decide to sell your home.
- Borrowers may not have greater than \$75,000 in liquid assets after the close of escrow.

- There is a minimum household size per the number of bedrooms. For a three-bedroom townhome, there is a minimum of a two-person household. For a four-bedroom townhome, there is a minimum three-person household. One person households are not eligible to purchase at this development.

Your monthly housing costs cannot exceed an “Affordable Housing Cost” limit. Total monthly expenses for property taxes, insurance, homeowner association dues, loan principal and interest payments, utilities (other than phone) and maintenance and repair currently cannot exceed \$3,436 for three-bedroom units or \$3,710 for four-bedroom units.

Financial Terms

Loan Security--The loans are secured by recorded deeds of trust.

Amount Required for Down Payment/Closing Costs-- The City requires a minimum buyer contribution of 1% of the sales price contribution from the buyer. However, most first lenders require a 3% contribution from the buyer.

Loan Repayment Term(s)-- The Equity-Share loan is due and payable in 45 years or upon transfer of title to the home. The BEGIN/CalHOME loans are due in 30-years or transfer of title.

Interest Rates of City loan(s) – The interest rate for the BEGIN loan is 3% simple interest. The CalHOME loan is at 0% interest. For the Equity-Share loan, there is no set interest rate (see example below):

Equity Share/Resale Restriction—The City's loan is subject to a 45-year affordability restriction that is recorded against the home. If you resell your home prior to the end of this 45-year term, you must first notify the Housing Department. You have **two** choices at the time of resale:

- Resell to someone who has a household income that the City reviews and verifies that earns less than 120% of area median income (AMI). The resale price will be restricted based upon the Affordable Housing Cost limit. The seller can allow the new buyer to assume the City loan and would not be required to pay the City an “equity share” on the increase in value. NOTE: The new buyer, and the new buyer's lender, must be willing to accept the terms and conditions of the City's affordability restriction.
- Resell the home at fair market value, repay the City loan **and** pay the City an equity share. The equity share is the City's proportionate share of the difference between the original purchase price and the resale price (less City approved selling costs and improvements). Upon resale, the City will release the City Deed of Trust and Equity-Share/Resale Restriction. Therefore, under this option, the future buyer will not be subjected to any City requirements.

NOTE: Prepayment of the equity-share loan while you continue to own your home will not release you from the affordability restriction.

ADDITIONAL NOTE: In the event the resale price is less than your original purchase price, no equity-share payment will be due to the City. However, you will be required to repay the original City loan amount.

Equity-share/Shared Appreciation example \$5,000

Possible resale price	\$ 575,000
Original sales price	<u>500,000</u>
Accrued equity	\$ 75,000
Less capital improvements approved by the City	\$ 3,000
Less reselling costs	<u>37,000</u>
Total Reselling costs/improvements	\$ 40,000
Accrued equity	\$ 75,000
Reselling costs/improvements	<u>40,000</u>
Equity subject to equity-sharing	\$ 35,000
City equity-share percentage (\$5,000/\$500,000) 1%	
Equity-share due to the City (1% x \$35,000)	\$ 350

Original Purchase Price	\$ 500,000
City BEGIN Loan	-100,000
City CalHOME Loan	-58,750
City Equity-Share loan	<u>-5,000</u>
Original First Loan Amount	\$ 336,250

Property Resale example:

Possible Resale price	\$ 575,000
Repayment of first loan	330,000
Repayment of City loan	5,000
Payment of equity-share	350
Repayment of BEGIN loan + Interest	115,000
Repayment of CalHOME loan	58,750
Reselling costs	<u>37,000</u>
Amount due to homeowner	\$ 28,900

Amortization Schedule for the \$100,000 BEGIN loan (loans are at 3% simple interest):

Year	interest	Balance	Year	Interest	Balance
1	\$3,000	\$103,000	16	\$3,000	\$148,000
2	3,000	106,000	17	3,000	151,000
3	3,000	109,000	18	3,000	154,000
4	3,000	112,000	19	3,000	157,000
5	3,000	115,000	20	3,000	160,000
6	3,000	118,000	21	3,000	163,000
7	3,000	121,000	22	3,000	166,000
8	3,000	124,000	23	3,000	169,000
9	3,000	127,000	24	3,000	172,000
10	3,000	130,000	25	3,000	175,000
11	3,000	133,000	26	3,000	178,000
12	3,000	136,000	27	3,000	181,000
13	3,000	139,000	28	3,000	184,000
14	3,000	142,000	29	3,000	187,000
15	3,000	145,000	30	3,000	190,000

If you continue to own your home at the end of the thirty years, you will receive a balloon payment notice from the City of San José for the BEGIN loan in the amount of \$190,000.

The Process

1. Complete 8-hour Homebuyer Education class from [Project Sentinel](#).
2. Email to: Tierra.Townhomes@gmail.com or call (408) 279.7674 for more information.
3. Contact the developer for a list of eligible lenders.
4. Your lender will provide the following documents to the City:
 - Completed and signed [City Loan Application](#)
 - Senior lender pre-qualification/pre-approval, senior lender Loan Application and Transmittal Summary.
 - Three current pay stubs or self-employed documentation per household member
 - Federal Income tax returns from previous year.
5. [Janie Le](#) (408) 975.4414 or [Jovette Armenta](#) (408) 975.4466 will contact you to schedule a 30-minute appointment at City Hall to discuss the City's terms, restrictions, and underwriting guidelines. All adult household members (not just the borrowers) must attend the meeting.
6. Contact the developer to sign the purchase contract. Your lender should handle the process with the City thereafter.

signature	date	signature	date
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I/we have met with a City Housing Staff member, the City's terms, restrictions, and underwriting policies have been thoroughly explained.

City Staff Member	date
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Pre-Qualified for 60-days? Yes or No